

**JPMorgan**  
**Thurs, 18<sup>th</sup> June 2009**  
**14:00 Hrs UK time**

Good day ladies and gentlemen, participants to the conference, let me welcome you at our conference call. Today we published our US GAAP results for the First Quarter; hopefully you have had a chance to have a look at those and prepare your questions.

We will start by making a brief presentation of our results and subsequently myself and my colleagues will be happy to answer your questions. Before we begin though, I would like to remind you that this presentation as well as our comments contains statements of future expectations that are based on current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in this statement. Forward-looking statements include all kinds of things that are based on current events and assumptions. This presentation contains forward-looking statements concerning the financial conditions, results of operations and business of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

After the disclaimer let us begin the analysis of our indicators. Let me draw your attention to the financial indicators of the company on slide 4. First off, in the First Quarter recovery of our financial indicators has started. As you can see, compared to the Fourth Quarter of 2008 our revenue, EBITDA, net income and operating cash flow has grown and all the figures are there on your slide before you. Besides, one other thing we can observe is costs going down in the First Quarter. This was partially due to Rouble devaluation and partially due to drastic tax cuts for different reasons. A different formula for mineral extraction tax calculation and normalisation for the level of export duty, so we didn't have the lag that we used to have that decreased our results in the Fourth Quarter of 2008. All in all our costs in Q1 are lower than in Q4 of the previous year.

One other important event of the First Quarter of 2009 is the non-organic growth of our company. In February we closed a deal on acquiring a 51% stake in NIS Company and by today Gazprom Neft is a stakeholder of 34% stake in Sibir Energy. We kept developing our retail product lines within the framework of developing. Our lubricants business, we acquired a plant in Italy, in Bari. As far as Marine Bunker is concerned we are number two bunkering company in Russia in terms of business volume. Gazprom Neft Avia is now present in 11 airports across Russian Federation.

A few words on macroeconomic indicators and results: as I have already mentioned, the First Quarter 2009 is characterised by an upward trend in oil markets. Prices were going up; however the average price level in the First Quarter was a bit lower all in all(?) in the Fourth Quarter 2008. Nevertheless, due to Rouble devaluation as well as the abovementioned general tax burden decrease led to the macroeconomic situation being more favourable to our Company and the effect of Rouble devaluation as well operating

costs going down compensated for the fact that the price level was lower than the price level of the Fourth Quarter 2008.

Next slide is here to demonstrate financial results dynamics quarter-to-quarter. Due to lower prices our revenues were lower than in the Fourth Quarter of 2008. However, our EBITDA was higher in Q1 2009; it amounted to a 942 Rouble devaluation led to the fact that since January 2009 our Company incurred considerable loss because of devaluation of Rouble articles in the balance. The total effect amounted to \$166 million, which negatively impacted our net income. However, if we compare this net income to that of the Fourth Quarter 2008 you will see the situation has become much better; it is 335 million Roubles of net income as compared to \$543 million of loss in the Fourth Quarter.

I suppose the next slide, slide 7, will be of interest to you. We made a comparison of our cash flows, financial cash flows First Quarter as compared to the Fourth Quarter of the previous year. As you can, see changes are quite considerable and this is due to the factors that I mentioned above and it is expressed in quantities. The general price levels going down let our indicators go down by \$482 million. Due to devaluation, our operating and capital exchanges led to \$179 million of positive impact.

Next is the tax rate changes impact in the First Quarter. The changes of tax burden and the view(?) of the change in oil prices in calculating oil extraction tax led to what you can see here. However, export duty lag and normalisation of exports duty gave us the positive result of 373 million Roubles and additionally \$231 million was the effect when the prices went down; the taxes that are tied to the global price level and export duties went down as well. We have probed, we have worked on cutting both operational and capital expenses and you can see that in a Rouble equivalent it amounted to a cost reduction of \$397 million.

Another factor that might be surprising to you, although it is not bad at all, our working capital increased by 643, which is understandable, because the prices were going down and in the Fourth Quarter we were receiving revenues from the Third Quarter offload (?) and it was still for the prices that were higher while the current payable as compared to the beginning of the year was an additional factor that contributed to changes in working capital and our need for working capital increased. All in all, as you can see, we have a considerable difference in our free cash flow in the First Quarter 2008; it amounted to 186 compared to minus 38 million in the Fourth Quarter 2008.

On slide 8 you can see our financial performance results. In the course of our previous conference call we introduced adjusted EBITDA that includes our share of joint stocks companies with Slavneft and others, so you can see this adjusted indicator on slide 8.

Operating results: operational performance results, crude output quarter-to-quarter decreased by 3%. Let me highlight here that this change in the First Quarter as compared to the First Quarter 2008 will be commented at large by my colleague and yet in the First Quarter our day-on-day production was stable and now we can see positive changes and day-on-day oil rate as well as average rate in May and June are actually higher than oil rates at the beginning of 2009.

As far as downstream is concerned, as compared to Fourth Quarter 2008 we increased crude exports by 17% and this is due to the fact that exports profitability or export

profitability was positive. As you will remember in November, in the Fourth Quarter all companies were losing money on export. Crude oil ... refining volumes in Russia was almost stable; besides we started to consolidate our deal acquisition NIS Company and in view(?) of refining in Serbia by NIS Company, the total volume of oil refined grew from 7.1 to 7.5 as you can see on the slide. Petroleum product sales as well as oil products exports almost stayed the same as you can see.

Next you can see the way our Company generated cash flows and () flows just as we planned. Organic capital expenditures were financed through operational cash flows. As was already mentioned, free cash flow of the company in the First Quarter was positive. As far as loans are concerned, the funds attracted in the First Quarter were used for refinancing our credit portfolio as well as for funding our M&A activity.

Our debt profile can be seen on the next slide. The peak of settlements is expected at the year 2011, so we do have enough time to get ready for that and make correspondent attraction of funds and refinance all we need for this year and next year. Credit ratings of the company are favourable and both Standard & Poor's and Moody's give us investment grade. Total debt structure is given here and you can see that we have 94% in foreign currency.

Here you can see dynamics of Capex, organic Capex breakdown; it is slide 12. Obviously the market situation in the First Quarter of this year is much worse than that of the previous year, so we cut on our Capex. These cuts are quite considerable; it amounts to 46% as compared to the Fourth Quarter 2008. Cuts in Dollars, as we mentioned in the previous call, we added a lot to cut our tariffs in Roubles, so if we now refer to the level of activity to volumes of operations performed, you will see that our level of activity did not go down too considerably; only by about 10%.

As far as the () our operating results is concerned, production volume of our Company in the First Quarter 2009 kept stable and in the Second Quarter we see increase in production levels. That is to say that Capex levels that we maintain still allows us to meet the requirements in the current economic situation.

Now, a few words on operating results in upstream and downstream; slide 14 holds information on upstream dynamics. Oil production number of new wells launched: as for this result of NIS acquisition, Gazprom Neft produces not only in Russia, but also in Serbia; besides NIS has a concession in Angola. As I have already mentioned oil production dynamics this year is stable. As far as outlook is concerned, we keep working on R&D projects. Production levels from the three fields keep growing and the Company also keeps working on a few other projects so that in the future to stabilise and increase production.

On slide 15 you can see downstream indicators. Here you can see how we are maximising netbacks and enhancing operational efficiency through oil flows distribution. We see considerable changes as compared to the previous year. You can see that crude export is almost equal to refining export and this trend has only strengthened in the Second Quarter 2009. In () when crude prices in the global markets kept going up petroleum product prices seemed be lagging behind both at export markets as well as ... especially at CIS market. As far as the netbacks are concerned, it was pretty stable; 42% were exported, the rest was refined.

What you see next is our downstream results, the breakdowns, the refining throughput, capacity utilization, and refining conversion ratio. As far as conversion ratio is concerned you can see that our plants are still in good shape. We managed to increase in the First Quarter 2009 the yield of high marginal products; high octane gasoline, diesel fuel increased in the First Quarter. As far as additional comments on high octane(?), you can get those from my colleague here.

What we see next are the oil products marketing in Russia. Now that stagnation can be seen, economic stagnation in the Russian economy can be seen, oil products marketing or sales are stagnant as well. Volume of sales amounted to 3.5 tonnes, which is equal to that of the Fourth Quarter of the previous year. As far as our retail segment development is concerned, next year we are planning to focus on implementing the rebranding programme. Rebranding of petrol stations has already started, so we are planning to rebrand about 200 stations to put Gazprom Neft logo on those.

What are other expectations we have until the end of the year? We expect less volatility in oil prices as well as petroleum product prices. We expect petroleum product prices to catch up with oil prices and we also suppose that profitability of refinery will restore and be more attractive than in the First and Second Quarter. We will keep working on implementing and realising all the opportunities for non-organic growth. We keep working closely with the Government to change and optimise tax burden in the industry.

To finalise my presentation I would like to accentuate once again that we think these complicated conditions of the First Quarter, our Company managed to adjust to the new conditions of operation. We got effect from costs going down while the level of activity we had allows us to maintain our volumes. We keep working on increasing operating efficiency; we are planning to do it in the future as well. As far as our strategy is concerned we didn't really change it as a strategy for growth in all the segments of our activity.

With this I would like to finalise my presentation. Thank you for your attention and my colleagues and I will be happy to answer your questions. Thank you.

### **Questions and Answers - [Translated]**

#### ***Andrei Gromadin***

*Thank you, congratulations. This was a wonderful presentation and congratulations on wonderful results. My question concerns your acquisition of a stake of 33% in Sibir Energy. As far as I could understand this morning you see our assignment was already announced and Mr. Yakovlev a non-executor director. Does this mean that agreement has been achieved with major shareholders at their share packages will be bought out from them and is basically set with that? Thank you.*

Thank you for this question. I'd like to point out that for today, the third offer has already been made and now Gazprom Neft is holder of 34.07% in Sibir Energy. As far as minority shareholders are concerned, they have an opportunity to sell shares till the date of 26<sup>th</sup> July. This is no longer our obligation. However, these minority shareholders do have

this opportunity. Yes, indeed the DOED(?) deemed it's consistent with company interest and shareholder's interest to include representatives of Gazprom Neft and assign Gazprom Neft's representatives as Sibir CEO and non-executive director. Now, Mr. Tsibelman is CEO in Sibir Energy and myself, as a non-executive director of the said company; and I repeat, this was within the scope of activity of the Board of Directors and they deemed it's consistent with the company's interest. However, I would like to end my comments there because this is still quite a delicate issue. I'll just add that we very much like this company and we hope to keep working productively and fruitfully onwards with them. Thank you.

*Thank you.*

**Victor Mishnyakov**

*I have two questions, first question is on the [MDA]. Probably I do not understand something but when I look at these figures I can see, crude oil purchase going from 2.2 to 7.2; it's a drastic increase. While, when I look at P&L, I see cost of production and crude going down drastically from 1.4 billion to 0.8 billion. Could you please explain the reason behind this drastic increase in volumes and disproportionate decrease; increase in volumes and decrease in costs. Thank you.*

I'm afraid these figures are not comparable - if I may, I'd like to finish my interpreting, thank you - these figures are not comparable because India, in [MDA] we do not include the subsidiary the Slavneft and Tomskneft. While in P&L we do include Slavneft and Tomskneft. That stands behind such drastic difference in figures.

*Yes indeed, probably I did not include the Slavneft and Tomskneft role when I was looking at P&L although I did think that because of purchase of oil should have been higher but well it is, as it is. Now, let me address my second question to slide 14 of the presentation where you have information on the Brownfields expenditures that go down from \$8.3 per barrel to \$4.6 per barrel. Of course this is due to devaluation of Russian currency and some other factors that you pointed out, but obviously some types of activities are probably going to be decreased in this field or probably abolished on this field. What are the types of activities that you are not going to carry out on Brownfields, if any, and are you going to revisit your business plan and investment plan in view of the decreased oil prices as compared to last year; probably this business plan will be somehow changed.*

Well in fact these are two questions as far as I can understand and we are actually talking about slide 12. As far as a CAPEX is concerned we have indeed, as has already been mentioned by Mr. Yakovlev, our cost went down and this is due to the fact that we managed to get our job for contractors cheaper as well as due to Rouble devaluation. As far as our price focus for the year 2009, it allowed to a certain decrease in our CAPEX. I would additionally like to mention that in view of the current market situation and the fact that it's getting better, we're planning to increase our CAPEX into Brownfield predominantly into Vyngapurovskoye(?) and Sigmutz(?) field our two major Brownfields. Besides, I'd like to add that we're planning to fund additional projects both in upstream and downstream. Our operational cash flows are actually going to be higher than those in the business plan so that is why we're now looking at our opportunities, so we're looking at new opportunities involved in the process of ranking and prioritising the projects and this will probably lead to investment of additional to 200-300 million.

**Svetlana Grizan**

*Hello, I have a question concerning [NA]. I heard that in April you started hedging from drastic leaps of Dollar against Rouble and also that you started to use derivative. If I may, could you please specify what kind of derivatives you're currently using and do you already see the effect of using those. Thank you.*

Thank you for this question. Yes, indeed you're right. In April 2008 we, indeed, used hedging. However, in 2009 we no longer were interested in hedging as basically the changes in Rouble to Dollar rate were going one way and we didn't see the point in hedging, so we closed all the correspondent deals in January/February. However, we did use Rouble/Dollar forward in order to do the swapping of our Rouble debt. As you probably remember, we issued Rouble bonds for 10 billion Roubles and our functional currency is Dollars, so prefer to lend in Dollars so we did use this derivative, this instrument, in order to transfer the Rouble flow into Dollar flow and fixed rate of 5.5%. That is, to say, we used a synthetic kind of instrument and, by the way, considering the market situation in the first half of the year. I think it's the best we could get to get loan for the next two years at this 5.5%. This was as good as we could get. Thank you.

*Well actually, the reason for which I ask this question was when I looked at FX losses I could see that it's two times less than in Q4 of previous year and I thought that it's probably due to the use of handling(?) instruments especially in view of the fact that Dollar kept actually strengthening against Rouble. If you could explain that, that would be very helpful; thank you.*

Well, in fact these figures are due to the revaluation rather than use of any handling instruments. We, indeed, are valuated cash items in the balance as well as against receivable and payable. These changes, due to the cumulative effect of Rouble cash position and also changes in exchange rates that occurred both in the Fourth Quarter of 2008 and the First Quarter of 2009 has nothing to do, as I've already, with hedging.

*[Conversation in Russian]*

**Nadia Kazakova**

*Hello, I have a question for presentation, it's on slide 15 where you bring Netback's full refinery upstream and export(?). Could you please comment on the dynamics, the changes that you're expecting in the Second Quarter as we can see the figures on the slide but I'm really interested in the outlook for the Second Quarter? Thank you.*

Thank you very much for this question because Cherner already started to get bored and now we'll give him the chance to give a broad answer to your question.

Yes, thank you for giving me the floor, as far as Netbacks are concerned the trend seems to be the same as we've seen it before as compare oil prices for oil and oil prices for petroleum products. We can see that Netbanks, petroleum products Netbacks both in terms of export and in terms of the domestic articulation(?) are still lower than export Netbacks, so export Netbacks are higher than refinery Netbacks. Still, as far as cost of refinery is concerned. We did take measures to cut our costs and costs actually were going

up slower than inflation and slower than increase in tariffs of national(?) monopolies. The increase was only at 5%, which is 7% lower than we planned.

*Can you hear me? Did I get you right? That Netbacks will continue to rise in Second Quarter and if the prices will go to up to 55-\$60 probably even more then we are to expect Netbacks rise(?) of 3 or 4,000. Is that the right understanding?*

Well, we are expecting, indeed, increase in Netbacks. However, when we're forecasting Netbacks we have to take into account the duties going up as well, for example, if we compare custom duties in June and July we'll see increase in those. While it looks like Netbacks for petroleum products are going to level off and we find shipments in local...in the domestic market, in Russian Federation more efficient so it looks like we're going to stay with domestic market in that. However, let me point out to you – you probably notice if you read our slides carefully. Our refining volumes have risen by 4% and sales volumes have risen proportionately both in Russian Federation and in export. We had a 5% increase as compared to the First Quarter of the year 2008 in output in petroleum products fall under the domestic market and by 3% we increased as compared to Q1 of 2008 for export of such products. Yes, and I'd like to point out that the duty will increase by \$60. Let me point additionally that this is in prices per ton, I mean, the details are calculated per ton so \$60 per ton.

*Thank you.*

***Natalia Milchakova***

*First of all congratulations on good results and I have a very simple question concerning your costs. It looks like your costs indeed went down in results year-on-year. However, if we look at SG&A costs as well as depreciation and amortisation it looks like they're quite, on the contrary, they're going up. Can we connect it with the role of...with acquisition of NIS company probably the integration of NIS results into your balances.*

Yes, thank you very much for this question. Yes, indeed in the First Quarter of the year 2009 we carried out consolidation of NIS results; NIS being primarily involved in refining activity and marketing petroleum products. They have 450 filling stations in Serbia and, indeed, the SG&A increased – well substantially – due to consolidation of NIS. Notice, if we exclude NIS we'll only see increase in SG&A to the amount of \$194 million as compared to \$183 million in the First Quarter of the year 2008. Besides, we consolidated a sum of our marketing businesses that used to have marginal volumes but now as they grow in volumes we decided to consolidate those as well, so if we exclude those from SG&A you'll see that this indicator hasn't truly grown considerably year-on-year.

*And what about depreciation and amortisation; reasons for them growing the same as just mentioned, consolidation of NIS and marketing value(?).*

Well, actually depreciation and amortisation is increased by the change in volumes of CAPEX. For example, last year in 2008 we invested much more than in 2007. This is the main reason for changes in depreciation and amortisation.

*Thank you.*

**Constantine Yuminov**

*Hello, I have a question – I'm from (). I have a question concerning Gazprom licences. Do you think Gazprom Neft will keep just servicing those fields or are you expecting Gazprom to transfer licences to you?*

Well, it looks like you already asked this question one quarter ago when we were announcing our 2008 results after a considerable break in making such conference calls. Then we mentioned that you better address this question to our parent company, Gazprom. However, at this point I can point out that: Yes, indeed we have a plan for transfer of licences. This plan has already been approved and is now implemented. Eventually these licences are going to be transferred from Gazprom to Gazprom Neft and we're trying to go faster on marginal fields and on such marginal fields the licences, hopefully, will be transferred within this year.

*() not exactly marginal.*

Minor probably.

*Well, I was rather interested the changes. Did I get your right that the targets for 2020 are still in force this 9100 target?*

Yes. These targets are, indeed, still in force and as you probably can see we're going towards making those goals with increasing productions and other activities in our Company.

*Thank you.*

**Masha Radina**

*Thank you very much for your very informative question. I have a question to Vadim. Today in newspaper () there was an article that elaborated on the concepts announced by Ministry of Energy of the Russian Federation that reflects changes in a tax burden. While this seem to be in line with what you, Vadim, talked about at UBS conference in October 2008, so if you could specify some practical aspects of this concept and probably some administering aspects for after(?) profit tax. Thank you.*

Thank you very much for this question. Yes, indeed, there are practical aspects and positive aspects to the discussion in the field of tax reform and it is, first of all, part of this discussion has already begun. It actually involves not only Ministry of Energy but also our Ministry of Finance as well as Ministry for Economic Development in Russia Federation, and some consultants. Now, the discussions are not only at the conceptual stage but also at the stage when we try to get grants(?) to support the hypothesis that we initially had we are involved in extensive modelling and calculations looking at economies of one particular field used as a baseline as a base example. The thing that is in common and everybody agrees on that, is that tax object should be shifted from revenues or from prices to profit. This is something that everybody generally agrees on and now all the corresponding calculations are in process. It looks like it's all in the process of fine tuning and we're looking forward to this fine turning to get finalised. As far as administering is

concerned, it's also a very important aspect and it should go in parallel in order to make it possible to implement this in new tax principles in real life.

*Thank you.*

***Oleg Maximov***

*Hello, I'm Oleg Maximov from Troika Dialog and I have a question on your listing(?) costs...well, first of all, let me thank you for this wonderful presentation. I have a question on listing(?) cost, just like I said it looks like it went down but not too considerably especially if we compare it to much higher Rouble devaluation. There is also just a difference between your results and what we can see in Lukoil and Rosneft in the correspondent indicator. So how could you explain this difference and what you are expecting in terms of listing(?) costs in the future.*

Well, yes indeed, as far as the relative decrease in this listing(?) cost is concerned, it went down by 5.4%. However, if we look at absolute figures we'll see a 12.4% decrease and this is difference is connected with decrease in volumes of production but in fact listing(?) costs depend not on production of just oil but on liquid production and average liquid production from all our wells; these volumes remain stabilised. As far as the trends are concerned; well, we'll keep counting our costs and probably it's too early to make this global or long-term conclusions at this point of time but we're looking at cutting costs and, in the next period, we'll definitely see the effect of this cost cutting and hopefully this will allow us to meet all our strategic goals.

*Thank you.*

### **Closing Comments**

Thank you for your attention; thank you for your questions, we tried to make those answers to your questions as exhaustive as possible, as comprehensive as possible. We're looking forward to meeting again in three months to announce next quarter results. Thank you.